



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. December 7, 2005. The following members were present:

Jody B. Olson
J. Kirk Sullivan
Pamela I. Ahrens
Clifford T. Hayes
Jeff Cilek

Executive Director Alan H. Winkle, Investment Officer Richelle Sugiyama, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Rod MacKinnon
Brooke Brown
Drew Black
Brian McGrath
Vickie Burnet
Doug Bates
David Dunn
Robert Schmidt
Lucinda Smith
John McCarrick
Rich Cochran
Larry Johnson

Mountain Pacific Investment Advisors
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
IPEA
Clearwater
Clearwater
Milliman
Mellon
Mellon
Mellon
EFIB

Brent Nye
Bill Palumbo
Amy Castro

Boise Schools
MPIA
LSO

MINUTES

Approval of the Minutes: By motion duly made by Trustee Sullivan and seconded by Trustee Cilek, the Board unanimously approved the minutes of the October 25, 2005 meeting.

PORTFOLIO

Real Estate Report: Paul Saylor and Vicki Aponik had provided printed reports to the Board which reviewed PERSI's real estate investments. They discussed the Koll/PER, LLC investments, saying Don Koll is recovering from a stroke. Chairman Olson said the Board will send him a letter of appreciation and support during his convalescence. Mr. Saylor said business is the same at Koll with the day-to-day managers continuing their work and keeping Mr. Koll informed.

At the request of the Chair, Mr. Saylor provided some history of the real estate program. Over the last 12 years we have exited closed-end funds, assessed risk and searched for nearly three years to find attractive investments. PERSI waits for good opportunities as the program does not require a certain allocation to this sector. Ms. Aponik explained the value added strategy where we buy under-performing properties, improve them, raise rents and therefore increase the value.

Monthly Portfolio Update: CIO Robert Maynard was unable to attend this meeting. Investment Officer Richelle Sugiyama reviewed the updated PERSI Investment Report dated December 5, 2005. That report shows the current value of the fund as \$9,163,744,782 with a change in market value for the fiscal year of \$601,824,040, a 6.9% return. Since the last meeting she has visited Callan's office and will be working with the actuary at the beginning of the year on data for the asset liability report. That report is expected by the first part of the second quarter of 2006.

Mr. Maynard had prepared a comment for the month-end report dated November 30, 2005:

November, a traditionally good month for the markets, provided a complete rebound from a miserable October. For the most part, the major market action continues to revolve around perceptions about the length and magnitude of the Federal Reserve increases in the short-term interest rates, but a continued strong economy, good corporate profits and moderating energy prices have helped the equity markets. Bonds, however, continue to suffer as interest rates have risen

across the board in line with the Federal Reserve's indications of continued interest rate increases and concerns about incipient inflation. The fund has gained 3.1% this month and is up 6.1% for the fiscal year-to-date, breaking through the \$9 billion level for the first time. Emerging markets and the Pacific (primarily Japan) equity markets are the best performing capital markets for the fiscal-year-to-date. Fixed income is having a terrible time so far this fiscal year.

Bernstein Emerging and Genesis are the leading performers in absolute returns, followed by Zesiger and Peregrine. Zesiger, Peregrine and (for the first time in a long while) Rowe Price are the best performers against benchmark. The bond accounts are down for the fiscal year so far, with little to cheer about either absolutely or relatively. Bernstein Emerging, Genesis, and Mondrian are the worst performers against benchmark. Tukman and Mountain Pacific have made substantial comebacks in both relative and absolute performance, although both are still behind benchmarks for the fiscal year.

Of PERSI's major strategic leanings, global equity managers and emerging markets are helping the most relative to the fund's strategic benchmark, and few policies are hurting. Overall, the fund is ahead of the strategic benchmark for the fiscal year by 1.2%.

Other Business: Chairman Olson read a letter of thanks from the Endowment Fund Investment Board which thanked Richelle Sugiyama for her work during their recent search for their Manager of Investments. The letter also thanked the Trustees and CIO Maynard for their support and assistance during that time.

Investment Manager Comments: Chairman Olson invited managers who were present to comment on the markets and the economy. Brian McGrath said the Federal Reserve Chairman Ben Bernanke appears to be following the Greenspan path for awhile and making changes in "baby steps." His writings show a very different view than those of Mr. Greenspan and Mr. McGrath expects an interesting transition. Representatives from Clearwater Advisors are not expecting major surprises in the economy. They do look for a steady increase in interest rates with perhaps three more hikes and do not expect an inverted yield curve to materialize.

Bill Palumbo referenced the 10-year-rolling returns for the S&P back to 1971 and the annual returns during 27 periods. In order for the pattern to continue, we will need a 12% average return in the next five years.

EXECUTIVE DIRECTOR

Regular Interest Rate Discussion/Decision: Mr. Winkle reviewed his November 30, 2005 memorandum to the Board regarding the regular interest rate. By motion duly made by Trustee Hayes and seconded by Trustee Sullivan, the Board unanimously approved changing the formula for determining the regular interest rate each year into two tiers and directed staff to promulgate a rule and bring it back for adoption:

1. For members with less than five years of service, the actuary will assume a crediting rate of 9.25% which is 2% greater than the 7.25% net rate of return assumption. This will offset the periods when the actual return is below the 1% floor being proposed.
2. When the member has 5 years of service or more, the interest crediting assumption will return to the current rate of 7.25% which is equal to the net investment return assumption.

The effective date of this change will be delayed considerably due to the rules process and the fact that interest rate changes are only once per year on January 1. Currently there is a "black-out" on proposed rules, so no rules can be adopted until the end of the legislative session. A proposed rule must have legislative review before it can be effective so that will miss our January 1, 2006 and 2007 rate setting. The 2007 legislature will be able to review the rule so it can become effective with the interest rate setting January 1, 2008.

Indemnification: Mr. Winkle reviewed his December 13, 2005, memorandum which presented details on indemnification, representation and subrogation. Trustee Ahrens said this is a good opportunity for everyone to work through these issues. Many have not been addressed before including possible ramifications which no one has thought about or considered. The Board directed staff to proceed with discussions. Trustee Sullivan asked that insurance and subrogation be clearly addressed. If former Trustee Dennis Johnson is willing, the Board would like his opinion and review of this issue. Mr. Winkle will continue with meetings and discussions with the AG's office. Legislation is ready to proceed and will be adjusted if issues are addressed in other ways. Copies of the draft legislation were provided to the Trustees.

Status Update: Mr. Winkle reviewed his status report memorandum dated November 30, 2005. A detailed report on the Business Process Re-Engineering Project had been provided by Deputy Director Doner. The back-file conversion of microfilm records is proceeding ahead of schedule. Mr. Winkle will meet with Senators Cameron, Corder, Compton and Stegnar soon to continue discussions on retiree return to work legislation.

Deputy Director John R. Doner is retiring. Recruitment to fill that position will begin later this month.

LEGAL:

Ethics Presentation: Deputy Attorney General Brad Goodsell discussed Idaho Code 59-201 to 59-209, the Prohibitions Against Contracts with Officers, I.C. 59-701 to 59-705 - the Ethics in Government Act and I.C. 18-1351 to 18-1362 -the Bribery and Corrupt Influence Act. As part of this review, he answered questions from the Trustees. As a practical safe harbor, he suggested Trustees use the "reimbursable by the state" and the "\$50 rule." For example, if an activity or item would be reimbursable by the state or is valued at \$50 or less, then Trustees could accept those services or items from a third party and not violate the ethics codes.

FISCAL

Fiscal Update/ Travel, Administrative, Portfolio Reports: Financial Officer James Monroe reviewed his November 30, 2005, memorandum to the Board. The Administrative and Portfolio reports had been provided previously to the Board. The final annual audit report was provided to the Board along with the letter of comments and recommendations. Mr. Monroe thanked everyone involved in producing the annual report which will be available before the end of December. Regular interest, the rate credited to PERSI members' accounts, is 10.24% beginning January 1, 2006. The Regular Reinstatement interest, the rate of interest charged to members for repayment of delinquent contributions and separated benefits is 5.75% for 2005. He told the Board that PERSI employees were considered for and awarded increases and several bonus payments occurring in December. Chairman Olson asked Trustee Ahrens if this was consistent with other state agency policies. Ms. Ahrens said it is important to do what we can to retain and keep our employees as all agencies are facing big issues regarding attracting and retaining employees. Over the years PERSI has been conservative with merit increases and bonus awards.

Quarterly Financial Report: Senior Accountant Rhonda Yadon reviewed the report she had previously provided to the Trustees. Reporting nothing unusual in this report, Ms. Yadon explained the details as well as changes to the report format.

GFOA Excellence Award: For the 14th year, PERSI has received the prestigious Excellence in Financial Accounting award from the Government Finance Officer's Association. PERSI's Comprehensive Annual Financial Report (CAFR) must meet stringent guidelines to qualify for this award. Chairman Olson congratulated all those working on the various components of this annual report.

FUTURE MEETINGS:

January 24, 2006 8:30 a.m., Boise - PERSI office
February 28, 2006, 8:30 a.m., Boise - PERSI office
March 28, 2006, 8:30 a.m., Boise - PERSI office

Executive Session:

Personnel Matters: Noting that Idaho Code Section 67-2345(1)(a) & (b) allows the Board to discuss personnel matters in executive session, by motion duly made by Trustee Hayes, seconded by Trustee Sullivan and unanimously approved, the Board convened in closed session at 11:00 a.m.

At 11:15 the Trustees re-convened in open session. Chairman Olson said that during the Executive Session, the performance of Executive Director Alan H. Winkle had been reviewed. By motion duly made by Trustee Ahrens and seconded by Trustee Sullivan, the Board unanimously approved a 3% salary increase effective immediate with an evaluation of the job and paygrade to be conducted and provided to the Board. Trustees said this increase was consistent with the intentions discussed during the last review and the increase that was awarded in June 2005.

Adjournment: At 10:07 a.m., there being no further business to come before the Board, the meeting was adjourned.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director